

Memorandum

To: CHAIR AND COMMISSIONERS

CTC Meeting: January 31–February 1, 2007

Reference No.: 2.4c.(2)
Action Item

From: CINDY McKIM
Chief Financial Officer

Prepared by: Bimla G. Rhinehart
Chief
Division of Right of Way
and Land Surveys

Subject: **AIRSPACE LEASE DIRECT NEGOTIATIONS – SEPAROVICH/DOMIC/H/PADGHAM**

RECOMMENDATION:

The California Department of Transportation (Department) recommends that the California Transportation Commission (Commission) authorize execution of two lease amendments between the Department and Separovich/Domich/Padgham, et al. (Developer).

ISSUE:

The two subject airspace parcels are located beneath the Fort Sutter Viaduct of State Route 51 in midtown Sacramento. The first parcel (NR-SAC051-0004) is 121,495± square feet and is bounded on the east by 30th Street, on the west by 29th Street, on the south by S Street and on the north by R Street and is under an option resulting from a public bid offering. The second parcel (NR-SAC051-0006) is 108,198± square feet and is bounded on the east by 30th Street, on the west by 29th Street, on the south by R Street and on the north by Q Street and is currently under a long-term lease that expires in 2013. The leasehold interest has been negotiated to be acquired by the Developer and currently is in escrow.

Combining the request for the approval of terms and conditions for both parcels is necessary, as obtaining long-term leases for surface parking is a critical element for development of a fee-owned multi-story medical office building that is being proposed for construction at the corner of 30th and Q Streets in downtown Sacramento by the proposed Developer for Catholic Healthcare West.

BACKGROUND:

Background for Airspace Parcel NR-SAC051-0004

In the evolution of this proposed development, it was initially envisioned that only one city block would be needed to support parking needs of the proposed medical office building. This assumption drove the efforts for the Developer to secure a lease option via the public bid process in 2004 on this parcel. The Developer was the only qualified bidder and won the bid at a lease rate of \$11,150 per month for a 30-year term for surface parking only. The initial Option to

Lease was six months and required that the Developer secure all necessary approvals (entitlements, environmental, final plans, etc.) prior to exercising the option. Due to the lengthy timelines involved in development of this project and acknowledgment of this project's validity and worth, the Department has extended the lease option on this parcel several times. The Developer is currently paying \$11,000 per month for the extensions. To date, the Developer has paid \$200,000 in option fees. The Developer is now requesting an initial lease term of 35 years with a 15-year option to renew at an initial rent of \$11,745 per month (the \$11,150 bid amount escalated by the Consumer Price Index for the past two years).

Background for Airspace Parcel NR-SAC051-0006

As Developer negotiations with the proposed tenant of the medical office building became more concrete and costs and efficiencies were compared for two surface parking lots versus decked parking of the original option parcel, the Developer determined that development of two surface parking lots would be more efficient than development of one decked parking lot on Airspace Parcel NR-SAC051-0004. As such, the Developer began the process to acquire the leasehold interest in Airspace Parcel NR-SAC051-0006 for development of a second surface parking lot to support development of the proposed medical facility. This parcel currently houses a mini-storage facility and the lease term expires August 31, 2013. At present, the \$1.6 million purchase of the subject leasehold is still in escrow. The Developer consulted with Department staff who supported this concept.

The Developer proposes to demolish this mini-storage facility and then improve the area into a surface parking lot. The Developer is requesting the terms of this assumed lease to be extended, coterminous with the bid option parcel on August 31, 2043. In addition, the Developer proposes a one 15-year option to renew the extended term after August 31, 2043, which mirrors the proposed terms of the bid option parcel.

Due to costs of acquisition, demolition and development, the Developer proposes that the rental level under the assumed lease remain in effect until August 31, 2013, (current rent is \$5,175 per month). Effective September 1, 2013, the Developer proposes that the rent and terms for this assumed parcel be adjusted to coincide and "mirror" the negotiated rent and terms associated with the bid option parcel.

The Department endorses the plan of demolishing the mini-storage and converting the use of this airspace parcel into surface parking because parking is by far the preferred use of airspace that lies beneath our freeway structures. The mini-storage facility represents a potential safety and security hazard to our structure. In addition, any tenant-owned structure built under our viaducts represents a much higher liability level to the Department than the liability associated with surface parking, which is minimal.

The highest and best use for both parcels discussed above is plottage to the adjacent developer-owned parcels. Although independent development is feasible for the bid option parcel NR-SAC051-0004, due to the costs of the needed improvements and lack of income to generate profits to a developer, the lease rent would be significantly lower if the parcel was put out to bid for parking use independent of a link to a facility. In addition, while parcel NR-SAC051-0006

has been developed independently, its current use as a mini-storage represents an unnecessary liability to the Department and its rate of return as plottage in the future for parking is anticipated to be greater than the future rate of return associated with its continued future use as a mini-storage facility.

Direct Negotiations have resulted in the following terms and conditions for both parcels:

Use:	Surface parking
Initial Term:	35 years
Options:	One option for an additional 15 years
Negotiated Rent:	\$11,745 per month per parcel (excepting existing remaining term on parcel 2)
Escalations:	Consumer Price Index every five years
Reevaluations:	Every ten years or if decking is proposed
Cancellation:	None

Airspace Parcel NR-SAC051-0004

The proposed extension of initial term from 30 years to 35 years with one 15-year option is in the Department's best interest, as leasing this parcel to the proposed lessees will achieve the highest and best use and the greatest return to the Department.

Airspace Parcel NR-SAC051-0006

The proposed assumption of this lease, its conversion to surface parking and its extension to mirror the terms of Airspace Parcel NR-SAC051-0004 on September 1, 2013, is in the Department's best interest, as leasing this parcel to the proposed lessees for surface parking will achieve the highest and best use and greatest future return to the Department.

Attachments

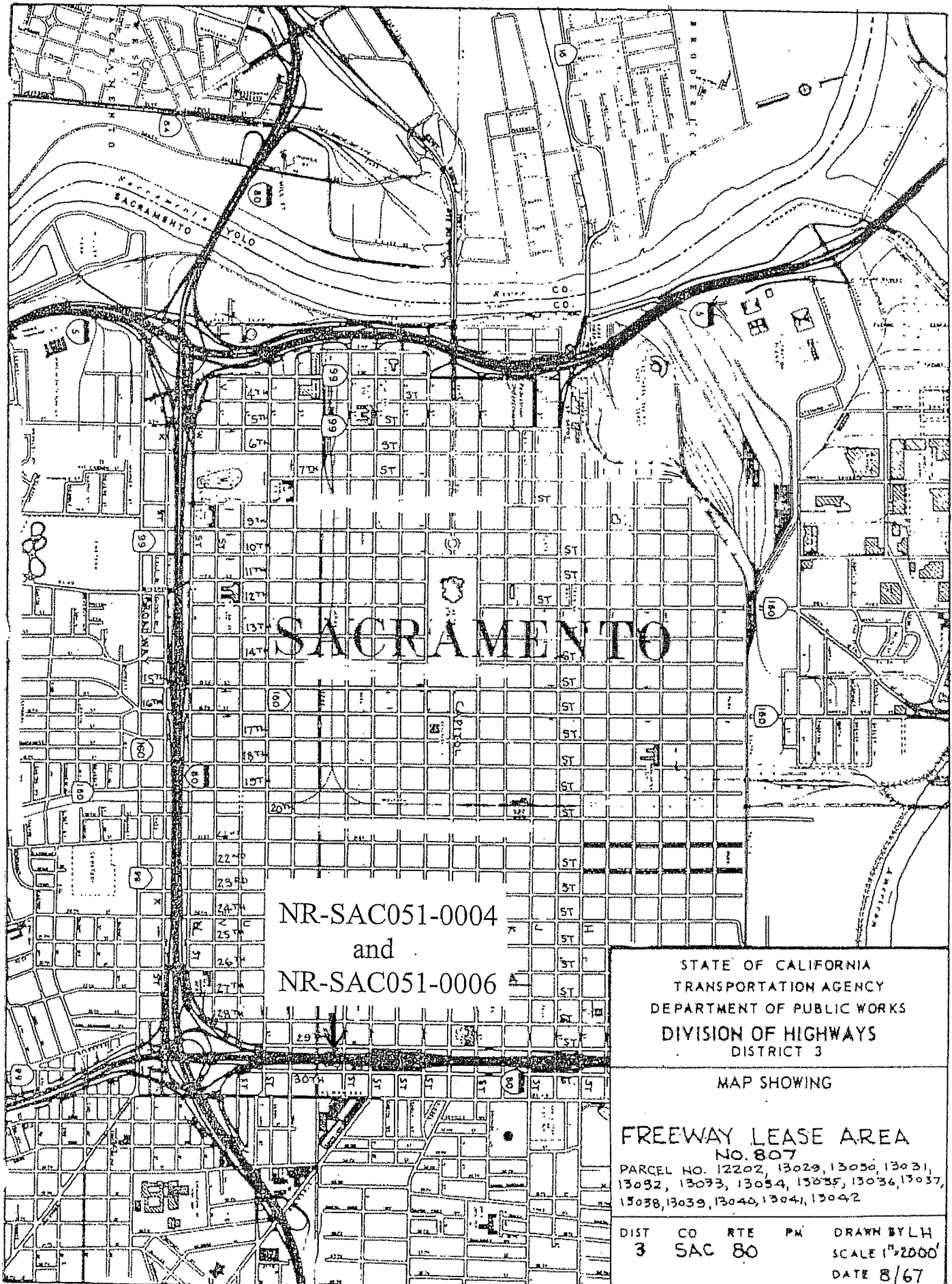


EXHIBIT A

Attachment 1

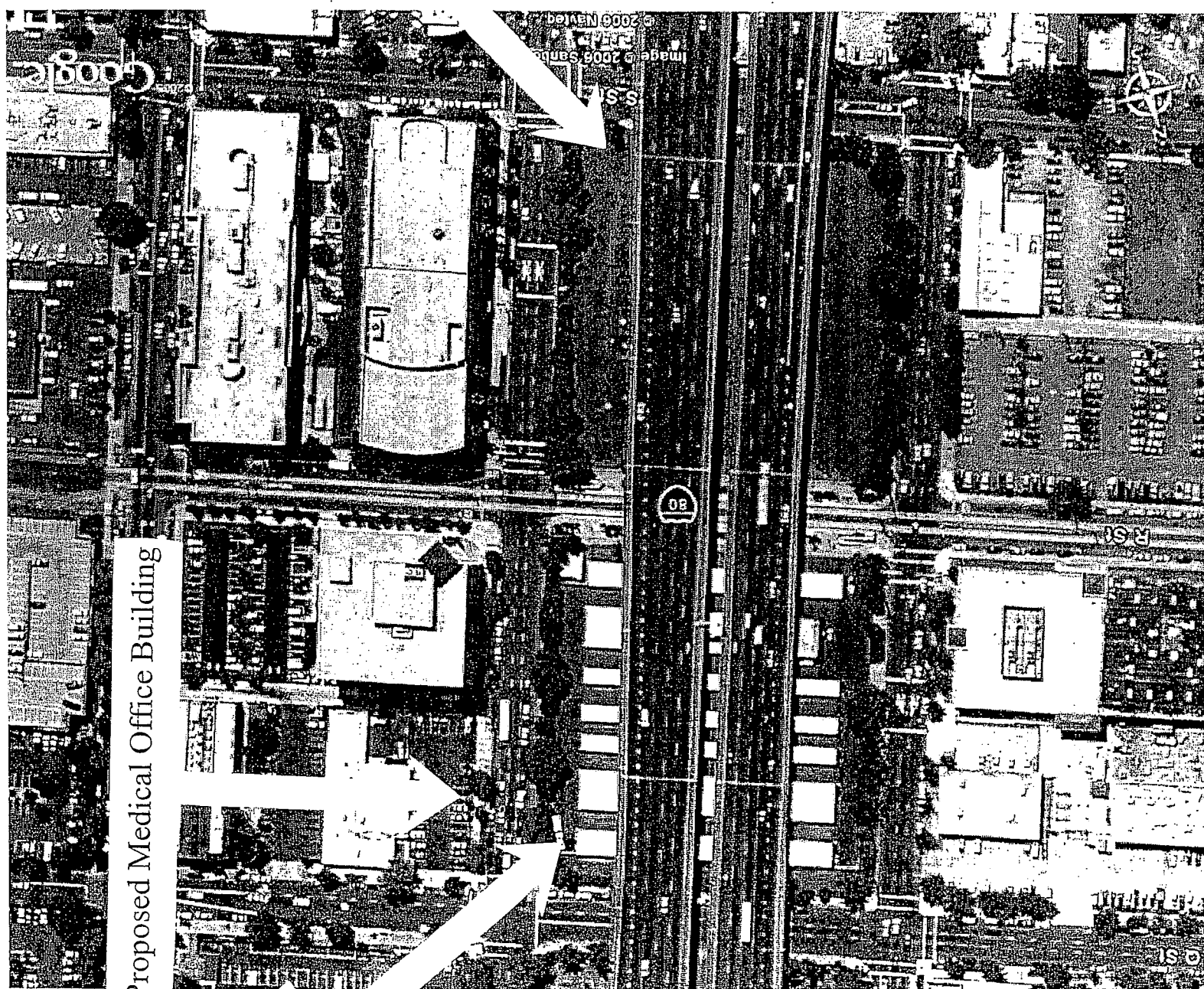
SAC051-0006



BRIDGE PIERS SHOWN THUS: •
MAXIMUM and MINIMUM CLEARANCE: 26' and 22'

Attachment 2

SUBJECT
PARCEL



Proposed Medical Office Building

SUBJECT
PARCEL

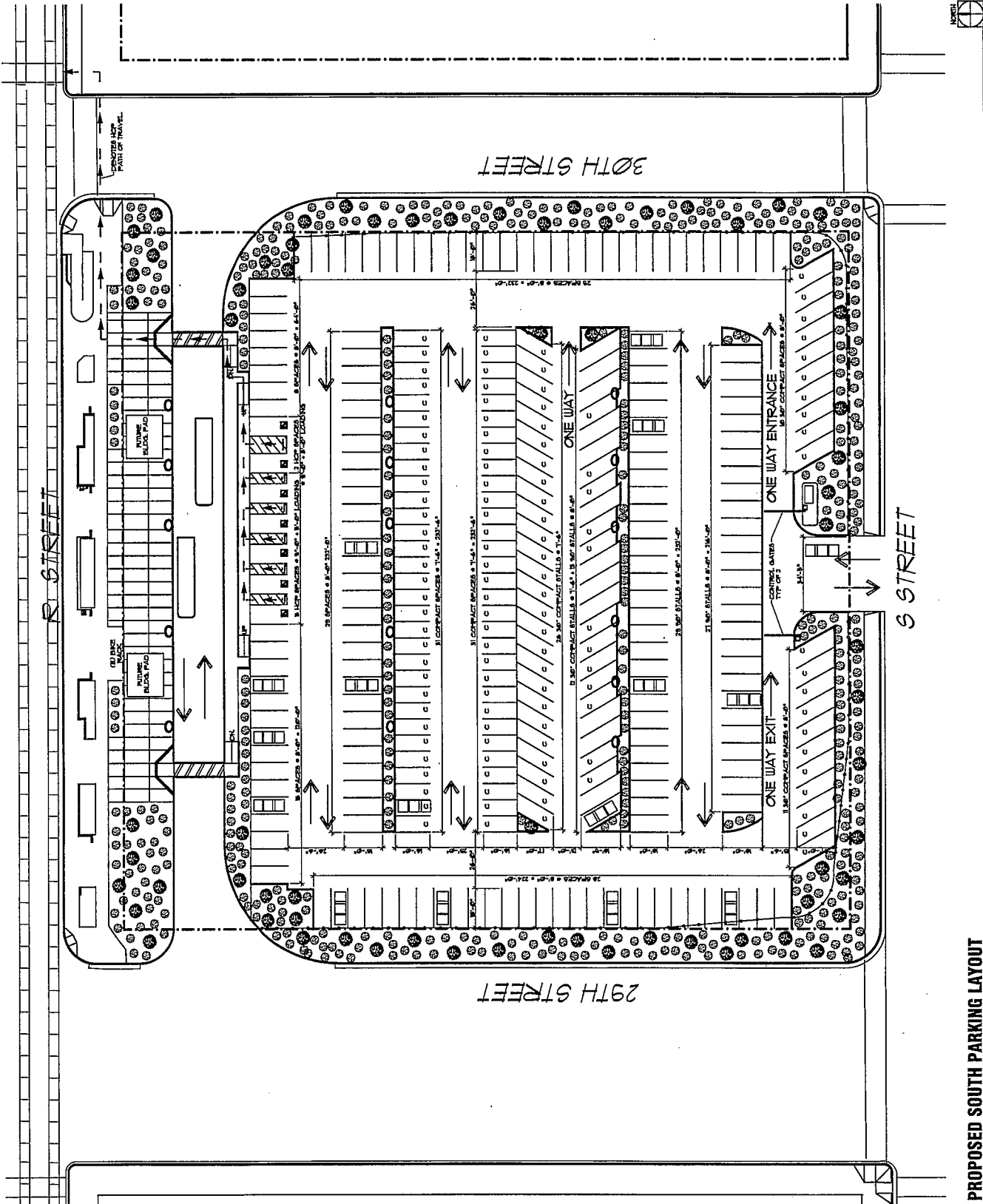
prelude	0188	0820
RUDY CALVO	0189	0821
ALAN C. HOE	0191	0823
THOMAS DOWD	0208	0840
ANDY C. TORRES	0820	0822
specialist	0820	0822
LOUISA K. MENDOZA	0820	0822
JOHN P. MURCHIO	0820	0822
2120 20th STREET, SUITE 1	0820	0822
SACRAMENTO, CALIFORNIA 95	0820	0822
TEL: 916/448-7741 FAX: 916/448-8	0820	0822
Q0820/188?	0820	0822

'30th' & 'Q'
SOUTH PARKING L

30th & Q Streets
Sacramento, CA
220017110
PROPOSED PARKING LA)

[illegible][illegible]

SP

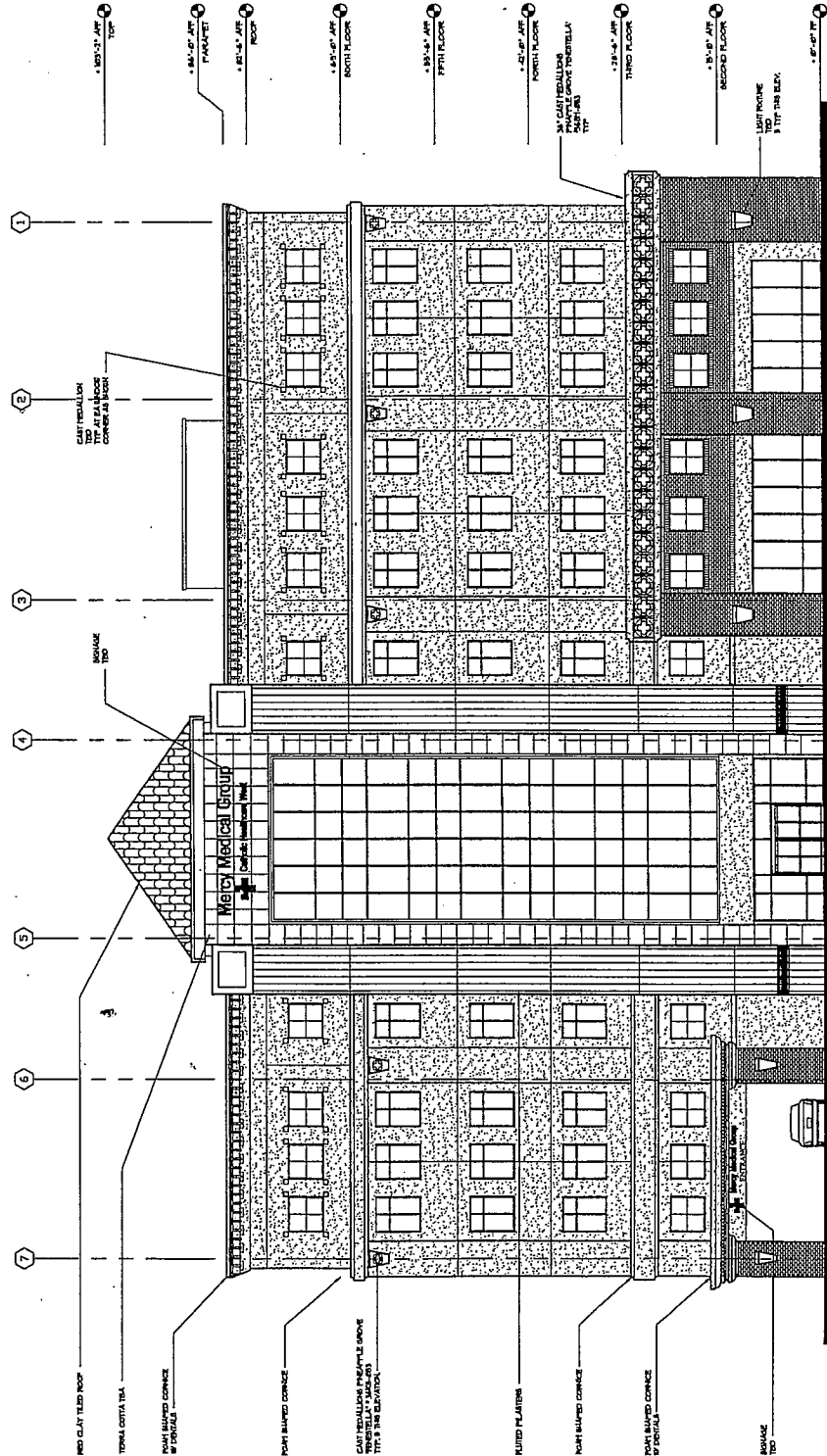


PROPOSED SOUTH PARKING LAYOUT

Proposed Medical Office Building



PROJECT
 300H & Q MEDICAL
 OFFICE BUILDING
 300H & Q STREETS
 SACRAMENTO, CA
 95811-1111



NORTH ELEVATION (Q STREET)
 SCALE: 1/8" = 1'-0"

PROJECT
 300H & Q MEDICAL
 OFFICE BUILDING
 300H & Q STREETS
 SACRAMENTO, CA
 95811-1111

NORTH
 ELEVATION

The undersigned architect does not represent that the drawings are true and correct in every particular. The drawings are prepared for the purpose of securing permits and for the construction of the building. The architect assumes no responsibility for the construction of the building or for the safety of the building. The architect is not a contractor and does not warrant the quality of the construction. The architect is not a contractor and does not warrant the quality of the construction. The architect is not a contractor and does not warrant the quality of the construction.



NO.	DATE	DESCRIPTION
1	10/2/2004	100% COMPLETE
2	10/2/2004	100% COMPLETE
3	10/2/2004	100% COMPLETE
4	10/2/2004	100% COMPLETE
5	10/2/2004	100% COMPLETE
6	10/2/2004	100% COMPLETE
7	10/2/2004	100% COMPLETE
8	10/2/2004	100% COMPLETE
9	10/2/2004	100% COMPLETE
10	10/2/2004	100% COMPLETE

A3.1

300H & Q STREETS
 SACRAMENTO, CA
 95811-1111